



IRA A JACKSON
COMMISSIONER

The Commonwealth of Massachusetts

Department of Revenue

Leverett Saltonstall Building

100 Cambridge Street, Boston 02201

March 5, 1984

You have requested a ruling as to the Massachusetts tax consequences of the conversion of ("Bank") from a federal mutual savings bank to a federal stock savings bank.

The Bank is insured by the Federal Deposit Insurance Corporation ("FDIC") and is subject to the rules and regulations of the Federal Home Loan Bank Board ("FHLBB") and the Federal Savings and Loan Insurance Corporation ("FSLIC").

As a mutual savings bank the Bank has no capital stock. Instead, the proprietary interest in the reserves and undivided profits of the Bank belong to all of its account holders. A Bank account holder is entitled to interest on the account balance that is declared and paid by the Bank. In addition, an account holder has the right to share pro rata, with respect to the amount in his savings account as a fraction of the sum of all savings accounts of the Bank, in any liquidation proceeds distributed in the event the Bank is ever liquidated. Voting rights in the Bank are held by its account holders and borrowers with each borrower being entitled to one vote as a member of the Bank and each account holder being entitled to one vote for each \$100 of deposit. All of these interests of the account holder cease when he closes the account with the Bank.

In order to stimulate growth and expansion of the Bank through the raising of additional capital the Board of Trustees of the Bank has adopted a Plan of Conversion

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whereby the Bank will convert itself into a federal stock savings bank ("Converted Bank"). The Conversion will be accomplished pursuant to the rules and regulations of FSLIC and FHLBB. It will be subject to the approval of the FHLBB and an affirmative vote of the majority of the eligible votes of the bank members.

Pursuant to the Plan of Conversion, the Converted Bank will issue shares of common stock. The aggregate purchase price at which all shares will be offered and sold will be equal to the pro forma fair market value of the bank based on an independent appraisal. The selling price of each share of stock will be determined by dividing such fair market value by the number of shares to be issued. The stock will be sold to qualified purchasers pursuant to nontransferable subscription rights. The nontransferable subscription rights will be offered without payment therefore on the basis of three preference categories established in accordance with the regulations of the FHLBB. The groups in order of priority are as follows: (1) persons who held qualifying deposits on May 31, 1983 ("eligible account holders") (2) all other members of the Bank; (3) Trustees, officers and employees of the Bank but limited in amounts to 15 per cent of the total offering of shares. Any remaining balance of unsubscribed - for stock is expected thereafter to be made available to the public at the same offering price.

The Conversion will not interrupt the business of the Bank and its business will continue as usual. Each account holder will retain a withdrawable savings account or accounts equal in amount to the withdrawal account at the time of conversion. The Converted Bank will continue to be insured by the FDIC and will remain subject to the regulatory authority of the FHLBB.

After the conversion, all voting rights not attributable to the common stock will expire. A liquidation account will be established in an amount equal to the net worth of the Bank as set forth in its latest statement of financial condition contained in the final offering circular respecting the offering of the common stock. While the establishment of the liquidation account will not operate to restrict the Converted Bank's use of its net worth, each Eligible Account Holder who had a qualifying deposit on the record date will have an interest in a portion of the liquidation account balance. This interest will constitute a right to receive an amount representing the Eligible Account

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Holder's interest in such net worth of the Converted Bank before any liquidation distribution can be made with respect to the common stock. An interest in the liquidation account will never be increased. It will however, be decreased as of each fiscal year-end after the record date to reflect withdrawals from the depositor's account that reduce the amount therein as of the fiscal year-end below the amount in such account as of the record date or any other fiscal year-end.

The Bank has requested a ruling from the Internal Revenue Service that the change in form of operation of the Bank from a federal mutual savings bank to a federal stock savings bank will constitute a reorganization within the meaning of Section 368(a)(1)(F) of the Internal Revenue Code; that no gain or loss will be recognized to the Bank as a result of such conversion; and that the Bank and the Converted Bank will each be "a party to a reorganization" within the meaning of Section 368(b).

Individual residents of Massachusetts are subject to taxation, under General Laws Chapter 62, on their Massachusetts gross income less certain deductions and exemptions. Massachusetts gross income is federal gross income with certain modifications not here relevant. (G.L. c. 62, § 2(a).)

The Bank is subject to taxation under General Laws Chapter 63, Section 11.

Based on the foregoing, it is ruled:

1. The Converted Bank will continue to be subject to General Laws Chapter 63, Section 11.

2. Under General Laws Chapter 63, Section 11, the Bank and the Converted Bank will be treated as the same savings bank and as if the Conversion had not occurred. Accordingly:

(a) the part of the current taxable year of the Bank before the Conversion and the part of the current taxable year of the Converted Bank after the Conversion will constitute a single taxable year of the Converted Bank;

(b) the Converted Bank will succeed to and take into account the net operating income of the Bank as of the date of the Conversion;

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(c) the Converted Bank's basis in its assets, holding periods, depreciation and amortization will be calculated as if the Bank and the Converted Bank were the same savings bank and as if the Conversion had not occurred;

(d) the creation of the liquidation account on the records of the Converted Bank will have no effect upon either the Bank or the Converted Bank's net operating income;

(e) for the current taxable year, the Converted Bank may claim as a credit any estimated tax under General Laws Chapter 63, Section 11 paid by the Bank prior to the Conversion; and

(f) the deposits, real estate and mortgage loans of the Converted Bank will be calculated as if the Bank and the Converted Bank were the same savings bank and as if the Conversion had not occurred.

3. No gross income, gain or loss will be realized by either the Bank or the Converted Bank as a result of the Conversion.

4. No gross income, gain or loss will be realized by either the Bank or the Converted Bank on the receipt of money or other consideration in exchange for shares of Conversion Stock.

5. No gain or loss will be recognized by the Eligible Account Holders of the Bank on the constructive issuance to them of deposit accounts in the Converted Bank in the same dollar amount as their deposit accounts in the Bank plus interests in the liquidation account of the Converted Bank in constructive exchange for their deposit accounts in the Bank.

6. No gain or loss will be recognized by the account holders of the Bank who are not Eligible Account Holders on the constructive issuance to them of deposit accounts in the Converted Bank in the same dollar amount as their deposit accounts in the Bank in constructive exchange for their deposit accounts in the Bank.

7. No gain or loss will be recognized by the Eligible Account Holders on the distribution to them of nontransferable subscription rights to purchase shares of Conversion Stock.

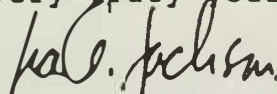
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8. No taxable income will be realized by the Eligible Account Holders, as a result of the exercise of the nontransferable subscription rights.

9. The basis of the deposit accounts in the Converted Bank constructively received by the Bank's account holders will be the same as the basis of their deposit accounts in the Bank constructively surrendered in exchange therefor. The basis of the interests in the liquidation account of the Converted Bank to be received by the Eligible Account Holders of the Bank will be zero.

10. The basis of the nontransferable subscription rights will be zero. The basis of the stock will be the purchase price thereof. The holding period of the stock will commence on the exercise of the subscription rights.

Very truly yours,



Commissioner of Revenue

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